

Report  
of the  
Examination of  
Direct Dental Service Plan, Inc.  
Racine, Wisconsin  
As of December 31, 2004



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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Jim Doyle**, Governor  
**Jorge Gomez**, Commissioner

**Wisconsin.gov**

August 8, 2005

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

Honorable Jorge Gomez  
Commissioner of Insurance  
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of  
the affairs and financial condition of:

DIRECT DENTAL SERVICE PLAN, INC.  
Racine, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Direct Dental Service Plan, Inc., (the company) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.



The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is exempt from being annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code.



## **II. HISTORY AND PLAN OF OPERATION**

The Direct Dental Service Plan, Inc., is described as a nonprofit group model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the group model, the company contracts with a sponsoring clinic to provide primary and specialist services. LSHOs compete with traditional fee-for-service health care delivery.

The company was incorporated April 27, 1987, and commenced business April 27, 1987, under the name of Racine Dental Plan, Inc. In October 2003 the company changed its name to Direct Dental Service Plan, Inc. The company is owned by Racine Dental Group, S.C. (RDG), which is under the ownership of ten dentists in the group.

The company is a dental health insurance plan contracted by employer groups in the Racine and Kenosha area as a benefit to their employees. The company was developed to offer a more affordable way for Racine and Kenosha area families to meet their dental health needs.

The company provides dental care to its enrollees through a provider contract with RDG. The majority of the company's services are provided under the contract with RDG. Under the agreement with RDG, the provider agrees to offer all covered services to the company's subscribers. A team of dentists and dental specialists who provide care staffs RDG in general dentistry, pediatrics, periodontics, prosthodontics, orthodontics, endodontics, and oral surgery. Covered services of the Plan are as follows:



<b>Benefit Description</b>	<b>Employees Pay</b>
• Diagnostic:	
Dental Exam	\$0
Dental X-Ray	0
• Preventive:	
Cleaning	0
Fluoride	0
• Emergency	0
• Restorative:	
Stainless Steel Crowns	0
Fillings	0 to lab fee in master contract with employer group
• Crowns & Bridges	0 to lab fee in master contract with employer group
• Prosthetics	0 to lab fee in master contract with employer group
• Endodontics:	
Root Canals	0 to lab fee in master contract with employer group
Pulpal Therapy	Same as above
• Orthodontics	Enrollee pays 50% of the first \$2,500 or amount indicated in master contract with the employer
• Oral Surgery:	
Extractions	0 to lab fee in master contract with employer group
• Out-of-area emergency	First \$25 to \$50 depending on the master contract with employer

Under contract with RDG are 19 general dentists and specialists. Included in the 19 dentists are 12 general dentists, one periodontist, two pedodontics, one oral surgeon, and three orthodontists. The company is designed to allow the enrollee to select the doctor of choice. In return, RDG receives 88% of gross premium received by the company.

Providers maintain, at their cost and expense, an insurance policy providing coverage for provider's general liability and professional liability in the minimum amount of \$1 million per claim and \$3 million aggregate to protect provider and provider employees, agents, or representatives.

The provider accepts agreed-upon service fees as payment in full for covered services and may not seek additional payments from enrolled members with the exception of applicable co-payments and deductibles. The provider may not collect from an enrolled member for services rendered any amount in excess of applicable co-payments and deductibles. Either



party can terminate the contract by providing at least 90 days' prior written notice to the other party that the agreement will be terminated on the anniversary date.

According to its business plan, the company is authorized to do business in Racine and Kenosha counties.

The company currently markets to groups only. The company uses outside agencies and pays a 4 to 8% commission on new and renewal business.

The company negotiates premium rates with each employer group. Each employer group premium rates are negotiated around the services provided and area competitors' rates. These rates may be adjusted to reflect age, sex, occupation, and coverage characteristics for each group. Experience is reviewed for renewal groups, following the review process; negotiations are held with each group employer to discuss future premium rates.

The company has developed procedures to monitor the actions of its primary care providers. The company's peer review is conducted through a revolving schedule where two company dentists weekly review the services rendered by a company dentist to an enrollee. The results of the review are documented and kept as a permanent record in the office.

As another control feature, all elective out-of-plan referral procedures must be preauthorized by a company dentist. Each member authorized for out-of-plan procedures is issued a card signed by the company dentist to present to the out-of-plan dentists. Without a preauthorized card out-of-plan services are not reimbursed.



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of ten members. Officers for the board are elected at the board's annual meeting. Members of the company's board of directors are the shareholders of Racine Dental Group, S.C., who is the company's ultimate parent. Members of the board of directors remain members until they no longer own shares in Racine Dental Group, S.C., in accordance with the company's bylaws. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Dr. Earl Newton Antioch, IL	Dentist
Dr. Derf Simes Racine, WI	Dentist
Dr. Scott Munro Racine, WI	Dentist
Dr. Richard Palmer Racine, WI	Dentist
Dr. Thomas Scherrer New Berlin, WI	Dentist
Dr. Mark Kenfield Wauwatosa, WI	Dentist
Dr. Curtis Cruthers Burlington, WI	Dentist
Dr. Jerome Oksiuta Franksville, WI	Dentist
Dr. Jennifer Quizon Shorewood, WI	Dentist
Dr. Thomas Linstroth Racine, WI	Dentist



### **Officers of the company**

The officers appointed by the board of directors and serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2004 Compensation</b>
Dr. Earl Newton	President	\$0
Dr. Derf Simes	Vice President	0
Dr. Scott Munro	Secretary	0
Dr. Richard Palmer	Treasurer	0
Dr. Thomas Linstroth	Dental Director	0

The officers receive no compensation for their duties within the affiliated relationship of RDG and the company.

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

#### **Executive Committee**

Dr. Earl Newton, Chair  
Dr. Richard Palmer  
Dr. Thomas Linstroth  
Dr. Derf Simes  
Dr. Scott Munro  
Dr. Curtis Cruthers

#### **Grievance Committee**

Dr. Earl Newton, Chair  
Carolyn Chapin  
Dr. Thomas Linstroth  
Karen Hallade  
Dr. Scott Munro  
Jim Murphy

The company has no employees. Necessary staff is provided through a management agreement with RDG. Under the agreement, effective April 21, 1987, RDG agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing, and MIS. RDG receives a fixed percentage of gross written premiums of the company for compensation for services rendered. The term of the agreement is continuous. The company may terminate the agreement upon 30 days' written notice if default of standards of performance continues 30 days after notice of such default.



## Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the company.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the company in the previous 12 months or \$75,000  The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the company demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The company should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

An LSHO which provides hospital services must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.



The company is provided with corporate insurance coverage under the contracts listed below:

<b>Type of Coverage</b>	<b>Policy Limits</b>
Directors' and officers' liability	\$1,000,000

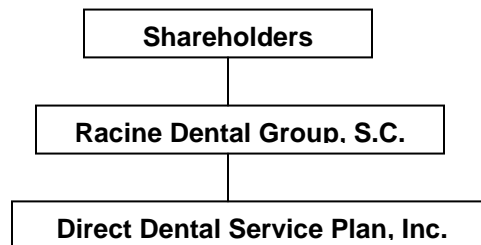
The above coverages are offered through an insurer either licensed in Wisconsin or appearing on the Commissioner's current list of approved surplus lines insurers.



#### IV. AFFILIATED COMPANIES

Direct Dental Service Plan, Inc., is a member of a holding company system. Its ultimate parent is Racine Dental Group, S.C. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Direct Dental Service Plan, Inc., follows the organizational chart.

**Holding Company Chart  
As of December 31, 2004**



**Racine Dental Group, S.C.**

Racine Dental Group, S.C., provides dental service to Racine and Kenosha area residents and employer groups. As of the fiscal year ending September 30, 2004, the company's unaudited financial statement reported assets of \$1,605,640, liabilities of \$1,215,422, and stockholders' equity of \$390,218. Operations for fiscal year ending September 30, 2004, produced "Corporation Net Profit before Stockholder Salaries & Benefits" of \$4,064,033.



## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2004, annual statement to the commissioner of insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."



**Direct Dental Service Plan, Inc.**  
**Assets**  
**As of December 31, 2004**

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	<u>\$2,359</u>	<u>\$0</u>	<u>\$2,359</u>
Total assets	<u>\$2,359</u>	<u>\$0</u>	<u>\$2,359</u>

**Direct Dental Service Plan, Inc.**  
**Liabilities and Net Worth**  
**As of December 31, 2004**

Total liabilities		\$ 0
Common capital stock	\$ 800	
Surplus notes	7,140	
Unassigned funds (surplus)	<u>(5,580)</u>	
Total capital and surplus		<u>2,359</u>
Total liabilities, capital and surplus		<u>\$2,359</u>

**Direct Dental Service Plan, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year 2004**

Net premium income		\$2,828,460
Medical and Hospital:		
Other professional services	\$2,789,045	
General administrative expenses	<u>339,415</u>	
Total underwriting deductions		<u>2,828,460</u>
Net income (loss)		<u>\$ 0</u>

**Direct Dental Service Plan, Inc.**  
**Capital and Surplus Account**  
**As of December 31, 2004**

Capital and surplus prior reporting year	<u>\$2,359</u>
Capital and surplus end of reporting year	<u>\$2,359</u>



**Direct Dental Service Plan, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2004**

Premiums collected net of reinsurance		\$2,828,460
Less:		
Benefit and loss related payments	\$2,489,045	
Commissions, expenses paid and aggregate write-ins for deductions	<u>339,415</u>	
Total		<u>2,828,460</u>
Net cash from operations		<u>0</u>
Net change in cash and short-term investments		<u>0</u>
Beginning of year (cash and short-term investments)		<u>2,359</u>
End of year (cash and short-term investments)		<u><u>\$ 2,359</u></u>



## Growth of the Company

The following schedules reflect the growth of the company during the examination period:

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income (Loss)
2004	\$2,359	\$0	\$2,359	\$2,828,460	\$2,489,045	\$ 0
2003	2,359	0	2,359	919,576	809,227	0
2002	2,359	0	2,359	631,099	555,876	0
2001	2,359	0	2,359	1,118,215	985,132	0
2000	2,359	0	2,359	910,840	803,266	0
1999	2,359	0	2,359	758,616	666,729	0
1998	2,359	0	2,359	639,435	302,686	(56)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2004	0.0%	88.0%	12.0%	10,142	24.0%
2003	0.0	88.0	12.0	8,169	100.8
2002	0.0	88.0	12.0	4,012	-21.0
2001	0.0	88.0	12.0	5,118	18.0
2000	0.0	88.0	12.0	4,333	11.0
1999	0.0	88.0	12.0	3,886	4.0
1998	0.0	88.0	12.0	3,726	

### Per Member Per Month Information

	2004	2003	Percentage Change
Premium	\$23.26	\$23.16	0.4%
<b>Expenses:</b>			
Other professional services	20.47	20.38	0.4
Claims adjustment expenses	2.79	2.76	0.4
General administrative expenses	<u>          </u>	<u>.01</u>	
Total underwriting deductions	<u>\$23.26</u>	<u>\$23.16</u>	0.4

The company's enrollment increased 172.2% during the examination period. This is partially the result of one group going from paying Racine Dental Group, S.C., direct to paying the company for its insurance.

The financial results of the company show no net profit or loss and no change in assets, liabilities, and surplus during the examination period is the result of the company's



agreements with Racine Dental Group, S.C.; which was discussed in the “Management and Control” section above.



**Reconciliation of Net Worth per Examination**

The current examination resulted in no adjustments to surplus or reclassification of balance sheet amount.



## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were eight specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Corporate Control—It is recommended that the company keep a written record of all board and committee actions in accordance to the Plan's bylaws and pursuant to s. 181.1601, Wis. Stat., or amend its bylaws in accordance to the needs of the Plan.

Action—Compliance.

2. Management and Corporate Control—It is again recommended that the Plan adopt an annual procedure for disclosing potential conflicts of interest of all officers, board members, or key employees.

Action—Compliance.

3. Management and Corporate Control—It is recommended that the company or its affiliate annually file an "insurance holding company system annual registration statement" pursuant to s. Ins 40.03, Wis. Adm. Code.

Action—Compliance.

4. Management and Corporate Control—It is recommended that the company obtains and maintains some type of indemnification coverage for its officers and directors.

Action—Compliance.

5. Service Agreements—It is recommended that the Plan amend the agreement to include a clause that makes the agreement automatically renewable each year in order to meet the definitions of an executable contract.

Action—Compliance.

6. Service Agreements—It is recommended that the Plan completely disclose in the provider service agreement with affiliate, RDG, all covered services and monthly capitation compensation in accordance with the provisions of the agreement.

Action—Partial compliance, see comments in the summary of current examination results.

7. Grievance Procedures—It is recommended that the company incorporate complete grievance procedure steps in its master contracts with employer groups pursuant to s. Ins 3.52 (10), Wis. Adm. Code.

Action—Compliance.

8. Cash Disbursements—It is again recommended that the Plan require, by resolution of the board, a specified amount for signing checks that would require two signatures, in order to ensure a more secure atmosphere for cash disbursements.

Action—Compliance.



## **Summary of Current Examination Results**

### **Management**

The examination noted during the review of the company's biographical sketches that four of the director's biographical information was not on file with this office. Pursuant to s. Ins 6.52 (5), Wis. Adm. Code, the company shall file a report with this office within 15 days of appointment for directors and officers. It is recommended that the company file the biographical information for the missing directors within 30 days of adoption of this report and that the company file biographical information in accordance to s. Ins 6.52 (5), Wis. Adm. Code, in future periods.

### **Provider Agreement**

The prior examination recommended that the company amend or revise its provider agreement with RDG to properly disclose the covered services and monthly capitation compensation in accordance with the provisions of the agreement. The company amended its agreement to adequately disclose the monthly capitation compensation, but did not adequately disclose the covered services. In the agreement, covered services were disclosed as a listing of groups whom the company insures. This does not adequately disclose which covered services the company is insuring. It is recommended that the company amend its provider agreement with RDG to adequately disclose the covered services that RDG is providing and file such with the commissioner within 90 days of the adoption of this report.



## **VII. CONCLUSION**

The examination resulted in no adjustments to surplus and two recommendations.

The recommendations were regarding management and the company's provider agreement.

The company complied with seven of the eight prior recommendations and partially complied with one recommendation. The company's asset and surplus has not changed over the examination period as a result of its administrative and provider agreement with Racine Dental Group, S.C., which passes 88% and 12% of the premium to RDG for dental and administrative services, respectively.



## **VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

1. Page 18 - Management—It is recommended that the company file the biographical information for the missing directors within 30 days of adoption of this report and that the company file biographical information in accordance to s. Ins 6.52 (5), Wis. Adm. Code, in future periods.
2. Page 18 - Provider Agreement—It is recommended that the company amend its provider agreement with RDG to adequately disclose the covered services that RDG is providing and file such with the commissioner within 90 days of the adoption of this report.



## **IX. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Glen Navis	Insurance Financial Examiner

Respectfully submitted,

Amy J Wolff  
Examiner-in-Charge